

FEDERAL ELECTION COMMISSION
999 E Street, N.W.
Washington, D.C. 20463

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FIRST GENERAL COUNSEL'S REPORT

AUDIT REFERRAL: 12-10

REFERRED: November 7, 2012

ACTIVATED: January 3, 2012

STATUTE OF LIMITATIONS: 1/1/14 (earliest)
12/31/15 (latest)

SOURCE:

AUDIT REFERRAL

Pre-MUR 549

RECEIVED: October 18, 2012

ACTIVATED: January 3, 2012

STATUTE OF LIMITATIONS: 4/1/17 (earliest)
10/17/17 (latest)

SOURCE:

Washington State Republican Party

RESPONDENT:

Washington State Republican Party and Dan Brady
in his official capacity as treasurer¹

**RELEVANT STATUTES
AND REGULATIONS:**

2 U.S.C. § 434(b)
11 C.F.R. § 300.36

INTERNAL REPORTS CHECKED:

Audit Documents
ADR Documents
Disclosure Reports

FEDERAL AGENCIES CHECKED:

None

¹ Colleen Morse was Washington State Republican Party's treasurer when the activity described in this report occurred. As of January 29, 2013, Dan Brady is the treasurer.

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I. INTRODUCTION

On October 17, 2012, the Washington State Republican Party and Dan Brady in his official capacity as treasurer ("Committee") filed a *sua sponte* submission acknowledging approximately \$70,000 in net increased activity in several of its 2012 monthly reports.² On November 2, 2012, the Commission approved a Final Audit Report ("FAR") on the Committee. In the FAR, the Commission found that the Committee misstated its financial activity in 2009 and 2010, both as to its non-Levin activity (Finding 1) and its Levin activity (Finding 2).³ See Attach. 1. Shortly thereafter, the Audit Division referred these findings to the Office of General Counsel.⁴

We recommend that the Commission open a matter under review ("MUR"), merge the Referral and *sua sponte* submission into the MUR, find reason to believe that the Committee violated 2 U.S.C. § 434(b), authorize pre-probable cause conciliation,

² The Committee also provided a supplemental submission by e-mail to answer a question regarding its calculations. See e-mail from David Mason, Committee attorney, to Elena Paoli, Staff Attorney, FEC (Feb. 27, 2013, 05:56 PM EST).

³ The audit was conducted pursuant to 2 U.S.C. § 438(b). Audit did not refer an additional finding that the Committee failed to report debts for 2009 and 2010.

⁴ On November 19, 2012, this Office notified the Committee of the Referral. See Agency Procedure for Notice to Respondents in Non-Complaint Generated Matters, 74 Fed. Reg. 38617 (Aug. 4, 2009). The Committee submitted a response.

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II. FACTUAL AND LEGAL ANALYSIS

A. AR 12-10 Facts

1. Finding One – Misstatements of 2009 and 2010 non-Levin Activity

Regarding the Committee's 2009 activity, Audit referred misstatements of beginning cash-on-hand and receipts.⁵

Table 1: 2009 non-Levin Activity			
Item	Reported	Bank Records	Discrepancy
Beginning cash-on-hand January 1, 2009	\$124,951	\$155,272	\$30,321 Understated
Receipts	\$852,256	\$806,615	\$45,641 Overstated
Disbursements	\$970,577	\$952,783	\$17,794 Overstated
Ending cash-on-hand December 31, 2009	\$6,630	\$9,104	\$2,474 Understated

The 2009 understatement of beginning cash-on-hand likely resulted from prior period discrepancies. *See* Referral at 2. The 2009 overstatement of receipts resulted from reported transfers from Levin and non-federal accounts that were not supported by bank deposits or checks/debits; unreported transfers from an affiliated committee and a non-federal account; and other unexplained differences. *See* Referral at 3.

⁵ Audit derived these figures by comparing the Committee's bank records to its disclosure reports at the time of the audit.

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Regarding the Committee's 2010 activity, Audit referred misstatements of receipts, disbursements, and ending cash-on-hand.

Table 2: 2010 non-Levin Activity			
Item	Reported	Bank Records	Discrepancy
Beginning cash-on-hand January 1, 2010	\$6,630	\$9,104	\$2,474 Understated
Receipts	\$2,275,638	\$2,972,793	\$697,155 Understated
Disbursements	\$1,925,680	\$2,988,062	\$1,062,382 Understated
Ending cash-on-hand December 31, 2010	\$356,588	-\$6,165	\$362,753 Overstated

According to the Referral, the 2010 understatement of receipts resulted from unreported transfers from a Levin account, non-federal accounts, and political committees; unreported contributions from individuals; in-kind contributions not reported as receipts; a reported transfer and contribution not supported by bank deposits; and other unexplained differences. *Id.* The understatement of disbursements resulted from unreported payroll expenditures and operating expenditures; unreported transfers to political parties and contributions to other committees; reported disbursements not supported by checks or debits; and other unexplained differences. The overstatement of ending cash-on-hand resulted from the misstated receipts and disbursements. *Id.*

2. Finding Two – Misstatements of 2009 and 2010 Levin Activity

Regarding its 2009 Levin activity, Audit referred misstatements of beginning cash-on-hand and disbursements.

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Table 3: 2009 Levin Activity

Item	Reported	Bank Records	Discrepancy
Beginning cash-on-hand January 1, 2009	\$49,500	\$17,001	\$32,499 Overstated
Receipts	\$0	\$0	\$0
Disbursements	\$49,499	\$17,000	\$32,499 Overstated
Ending cash-on-hand December 31, 2009	\$1	\$1	\$0

According to the Referral, the 2009 overstatement of beginning cash-on-hand likely resulted from prior period discrepancies. The overstatement of disbursements resulted from the erroneous reporting of transfers of \$32,499 to the federal account. *See* Referral at 6-7.

Regarding its 2010 Levin activity, Audit referred misstatements of disbursements and ending cash-on-hand.

Table 4: 2010 Levin Activity

Item	Reported	Bank Records	Discrepancy
Beginning cash-on-hand January 1, 2010	\$1	\$1	\$0
Receipts	\$12,500	\$15,000	\$2,500 Understated
Disbursements	\$0	\$15,000	\$15,000 Understated
Ending cash-on-hand December 31, 2010	\$12,501	\$1	\$12,500 Overstated

The understated disbursements resulted from an unreported \$15,000 transfer that the Committee made to its federal account, and the overstated cash-on-hand balance resulted from the misstated receipts and disbursements. *Id.* at 7. In response to the Interim Audit Report's

1 recommendations, the Committee amended its reports to correct all its misstatements of 2009
2 and 2010 non-Levin and Levin activity. *Id.* at 4, 7.⁶

3 The Committee responded that it “does not contest the factual basis for this referral.”
4 Resp. at 1. Instead, the Committee asserts that mitigating factors counsel in favor of a reduced
5 civil penalty. *Id.* The Committee asserts that the “public was not deprived of any substantial
6 information regarding” the Committee’s initially unreported 2010 receipts and disbursements
7 prior to the election. First, a portion of the receipts were transfers reported pre-election as
8 disbursements on the Committee’s state reports and on reports filed by the Republican National
9 Committee. *Id.* Second, the remainder of the unreported receipts and \$600,000 of the \$1.06
10 million in unreported disbursements was not due to be reported until after the election. *Id.* at 1-2.

11 The Committee also states that, during the 2010 election cycle, 90% of its initially
12 unreported receipts and 80% of its initially unreported disbursements stemmed from a “single,
13 readily remediable weakness.” *Id.* at 2. The Committee explains that its staff “recorded
14 inconsistently” wire and electronic transfers and thus “a relatively small number of unrecorded
15 transactions generated a very high dollar value of unreported activity.” *Id.* The Committee has
16 since revised its internal controls and compliance practices to address its problems in this area,
17 and it now completes a monthly bank reconciliation to ensure that its disclosure reports reflect all
18 bank activity. *Id.* at 2. Finally, the Committee “asks that the Commission instruct the staff as to
19 its willingness to explore a conciliation agreement which includes extraordinary assurances of
20 reporting accuracy as a substantial substitute for a financial penalty.” *Id.* at 3.

⁶ In response to the Draft FAR, the Committee requested a hearing on a mistaken \$43,920.85 transfer from its federal to non-federal accounts. The Commission held a hearing on June 27, 2012 but ultimately concluded in the FAR that the transfers should have been reported. See Referral at 7-8. The Committee had disputed that it needed to report the mistaken transfer, as it was quickly corrected and reversed, but the Committee nevertheless amended its reports to reflect both transfers. In response to the Referral, the Committee states that it “accepts the Commission’s conclusion on reporting of the inadvertent \$43,920 disbursement and corrective transfer raised during the audit hearing.” Resp. at 1.

B. Pre-MUR 549 Facts

In its *sua sponte* submission ("Submission"), the Committee disclosed that it failed to report \$74,386.16 in receipts in its original 2012 April, May, and June monthly reports. See Submission at 1. According to the Submission, the Committee's errors mainly resulted from its hiring a new vendor to manage online receipts for its party convention. *Id.* at 1-2. Due to "administrative difficulties" and a "spike in volume" of transactions, staff became "overwhelmed" and failed to enter some receipts in the proper databases, entered some receipts late, and entered receipts for at least one date twice. *Id.* at 1.

Despite its monthly reconciliations, the Committee did not become aware of the missing receipts until June "because the vendor data and forwarding practices resulted in deposits in transit each month that were large and difficult to calculate." *Id.* at 1-2. Its compliance procedures failed to prevent the error because the transfers from the vendor were delayed and there was difficulty in matching specific contributors to the vendor transfers. *Id.* at 2. According to the Submission, once the Committee discovered the discrepancies, it worked "diligently" to identify missing, duplicate, or wrongly dated transactions and to correct the data. *Id.* Concurrently with filing the Submission, the Committee amended its 2012 April, May, and June monthly reports to reflect the additional receipts and amended its July-September reports to carry forward correct cash totals reflecting the April-June amendments. *Id.* at 1. It also revised its procedures and hired an additional compliance employee for the remainder of the 2012 election cycle. See *id.* at 2-3. In light of its Submission, the Committee requests the Commission conclude this matter with no action, or alternatively, resolve it through the Fast Track process or by referral to the Alternative Dispute Resolution Office, or with the maximum penalty reduction. *Id.* at 3.

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As illustrated below, the amended 2012 April and May monthly reports show an additional \$75,016.42 in receipt activity, and the amended 2012 June monthly report shows decreased receipt activity.⁷

Table 5: 2012 Activity				
Report	Date of Amendment	Original	Amended	Discrepancy
April Monthly	October 17, 2012	\$83,660.33	\$86,349.63	\$2,689.30
May Monthly	October 17, 2012	\$313,291.88	\$385,618.98	\$72,327.12
June Monthly	October 19, 2012	\$138,640.65	\$130,500.41	-\$8,140.24

In a supplemental submission, the Committee explains that the \$74,386.16 figure it cited in its Submission is the amount of contributions that the Committee received but had not included in the original reports. The Committee subtracted duplicate receipts totaling \$7,509.98 from the amended reports, resulting in a net increase of \$66,876.18. *See* e-mail from David Mason, Committee attorney, to Elena Paoli, Staff Attorney, FEC (Feb. 27, 2013, 05:56 PM EST).

C. Legal Analysis

The Federal Election Act of 1971, as amended, (the "Act") requires treasurers to file reports disclosing the amount of cash-on-hand at the beginning of each reporting period; the total amount of receipts for the reporting period and for the calendar year; and the total amount of disbursements for the reporting period and for the calendar year. *See* 2 U.S.C. § 434(b)(1), (2), (4). State, district, and local committees of a political party are required to report receipts and

⁷ On December 13, 2012, after the Committee filed its Submission but before OGC activated it, RAD sent an RFAI regarding the additional receipts in the Committee's amended 2012 May monthly report. The Committee's response to the RFAI contains the same explanation for the increase as does its Submission. *See* <http://images.nictusa.com/pdf/467/13960352467/13960352467.pdf> (Miscellaneous Text filed by Committee, Jan. 16, 2013).

1 disbursements for federal election activity if the aggregate amount of the receipts and
2 disbursements exceeds \$5,000 in a calendar year. *See* 2 U.S.C. § 434(e)(2)(A); 11 C.F.R.
3 § 300.36(b)(2). Committees that are required to report federal election activity must file monthly
4 reports. *See* 2 U.S.C. § 434(e)(4); 11 C.F.R. § 300.36(c)(1). For committees that have a Levin
5 fund account, Commission regulations also require separate disclosure reports for those funds
6 and transactions. 11 C.F.R. § 300.36.

7 The Committee misstated its financial activity in 2009, 2010, and 2012 and therefore did
8 not comply with the Act's reporting requirements. Accordingly, we recommend that the
9 Commission find reason to believe that the Committee violated 2 U.S.C. § 434(b).

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IV. RECOMMENDATIONS

1. Open a MUR.
2. Merge AR 12-10 and Pre-MUR 549 into the new MUR.
3. Find reason to believe that Washington State Republican Party and Dan Brady in his official capacity as treasurer violated 2 U.S.C. § 434(b).
4. Approve the attached Factual and Legal Analysis.
5. Enter into conciliation with Washington State Republican Party and Dan Brady in his official capacity as treasurer prior to a finding of probable cause to believe.
- 6.
7. Approve the appropriate letter.

Anthony Herman
General Counsel

4-3-13
Date

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for Enforcement

Susan L. Lebeaux
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Attachments:

1. Final Audit Report



Final Audit Report of the Commission on the Washington State Republican Party January 1, 2009 - December 31, 2010

Why the Audit Was Done

Federal law permits the Commission to conduct audits and field investigations of any political committee that is required to file reports under the Federal Election Campaign Act (the Act). The Commission generally conducts such audits when a committee appears not to have met the threshold requirements for substantial compliance with the Act.¹ The audit determines whether the committee complied with the limitations, prohibitions and disclosure requirements of the Act.

Future Action

The Commission may initiate an enforcement action, at a later time, with respect to any of the matters discussed in this report.

About the Committee (p. 2)

The Washington State Republican Party is a state party committee headquartered in Bellevue, Washington. For more information, see the chart on the Committee Organization, p. 2.

Financial Activity (p. 3)

• Federal Receipts	
○ Contributions from Individuals	\$1,844,135
○ Contributions from Political Committees	900,961
○ Transfers from Affiliated and Other Political Committees	527,887
○ Transfers from Non-federal and Levin Funds	462,069
○ Other Receipts	44,356
Total Federal Receipts	\$3,779,408
• Federal Disbursements	
○ Operating Expenditures	\$3,753,148
○ Transfers to Affiliated and Other Political Committees	32,334
○ Contributions to Other Committees	27,900
○ Federal Election Activity	103,626
○ Refunds/Other Disbursements	23,837
Total Federal Disbursements	\$3,940,845
• Levin Receipts	\$15,000
• Levin Disbursements	\$32,000

Commission Findings (p. 4)

- Misstatement of Financial Activity (Finding 1)
- Misstatement of Financial Activity – Levin Fund (Finding 2)
- Reporting of Debts and Obligations (Finding 3)

¹ 2 U.S.C. §438(b).

Final Audit Report of the Commission on the Washington State Republican Party

January 1, 2009 - December 31, 2010



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Attachment 1

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Part I Background

Authority for Audit

This report is based on an audit of the Washington State Republican Party (WSRP), undertaken by the Audit Division of the Federal Election Commission (the Commission) in accordance with the Federal Election Campaign Act of 1971, as amended (the Act). The Audit Division conducted the audit pursuant to 2 U.S.C. §438(b), which permits the Commission to conduct audits and field investigations of any political committee that is required to file a report under 2 U.S.C. §434. Prior to conducting any audit under this subsection, the Commission must perform an internal review of reports filed by selected committees to determine whether the reports filed by a particular committee meet the threshold requirements for substantial compliance with the Act. 2 U.S.C. §438(b).

Scope of Audit

Following Commission-approved procedures, the Audit staff evaluated various risk factors and as a result, this audit examined:

1. the disclosure of individual contributors' occupation and name of employer;
2. the disclosure of disbursements, debts and obligations;
3. the disclosure of expenses allocated between federal and non-federal accounts;
4. the consistency between reported figures and bank records;
5. the completeness of records; and
6. other committee operations necessary to the review.

Audit Hearing

WSRP requested a hearing before the Commission. The request was granted and the hearing was held on June 27, 2012. At the hearing, WSRP addressed one issue related to the misstatement of financial activity.

Part II

Overview of Committee

Committee Organization

Important Dates	
• Date of Registration	October 14, 1975
• Audit Coverage	January 1, 2009 - December 31, 2010
Headquarters	
Bellevue, Washington	
Bank Information	
• Bank Depositories	Two
• Bank Accounts	Eleven Federal, Nine Non-federal, and One Levin
Treasurer	
• Treasurer When Audit Was Conducted	Colleen Morse
• Treasurer During Period Covered by Audit	Ed Mitchell: February 19, 2005 - July 18, 2009 Colleen Morse: July 19, 2009 - Present
Management Information	
• Attended Commission Campaign Finance Seminar	Yes
• Who Handled Accounting and Recordkeeping Tasks	Paid Staff

Overview of Financial Activity (Audited Amounts)

Federal Cash-on-hand @ January 1, 2009	\$ 155,272
o Contributions from Individuals	1,844,135
o Contributions from Political Committees	900,961
o Transfers from Affiliated and Other Political Committees	527,887
o Transfers from Non-federal and Levin Funds	462,069
o Other Receipts	44,356
Total Federal Receipts	\$3,779,408
o Operating Expenditures	3,753,148
o Transfers to Affiliated and Other Political Committees	32,334
o Contributions to Other Committees	27,900
o Federal Election Activity	103,626
o Refunds/Other Disbursements	23,837
Total Federal Disbursements	\$3,940,845
Federal Cash-on-hand @ December 31, 2010	\$ (6,165)²
 Levin Cash-on-hand @ January 1, 2009	 \$ 17,001
Total Levin Receipts	\$ 15,000
Total Levin Disbursements	\$ 32,000
Levin Cash-on-hand @ December 31, 2010	\$ 1

² Ending cash-on-hand was negative due to outstanding checks as of December 31, 2010.

Part III Summaries

Commission Findings

Finding 1. Misstatement of Financial Activity

A comparison of WSRP's reported activity with bank records revealed a misstatement of its beginning cash-on-hand and receipts for 2009 and a misstatement of receipts, disbursements and ending cash-on-hand for 2010. For 2009, WSRP understated beginning cash-on-hand by \$30,321 and overstated receipts by \$45,641. In 2010, WSRP understated receipts by \$697,155 and disbursements by \$1,062,382 and it overstated ending cash-on-hand by \$362,753. In response to the Interim Audit Report, WSRP filed amended reports that materially corrected the misstatements.

The Commission approved a finding that WSRP misstated financial activity for 2009 and 2010. (For more detail, see p. 5.)

Finding 2. Misstatement of Financial Activity – Levin Fund

A comparison of WSRP's reported Levin activity with bank records revealed a misstatement of its beginning cash-on-hand and disbursements for 2009 and a misstatement of disbursements and ending cash-on-hand for 2010. For 2009, WSRP overstated beginning cash-on-hand by \$32,499 and overstated disbursements by \$32,499. In 2010, WSRP understated disbursements by \$15,000 and overstated ending cash-on-hand by \$12,500. In response to the Interim Audit Report, WSRP filed amended reports that corrected the misstatements.

The Commission approved a finding that WSRP misstated Levin financial activity for 2009 and 2010. (For more detail, see p. 8.)

Finding 3. Reporting of Debts and Obligations

During audit fieldwork, the Audit staff identified debts to five vendors that WSRP failed to report in calendar years 2009 and 2010. WSRP did not report debts totaling \$361,838. In response to the Interim Audit Report, WSRP amended its reports to disclose these debts.

The Commission approved a finding that WSRP failed to report debts for 2009 and 2010. (For more detail, see p. 11.)

Part IV

Commission Findings

Finding 1. Misstatement of Financial Activity

Summary

A comparison of WSRP's reported activity with bank records revealed a misstatement of its beginning cash-on-hand and receipts for 2009 and a misstatement of receipts, disbursements and ending cash-on-hand for 2010. For 2009, WSRP understated beginning cash-on-hand by \$30,321 and overstated receipts by \$45,641. In 2010, WSRP understated receipts by \$697,155 and disbursements by \$1,062,382 and it overstated ending cash-on-hand by \$362,753. In response to the Interim Audit Report, WSRP filed amended reports that materially corrected the misstatements.

The Commission approved a finding that WSRP misstated financial activity for 2009 and 2010.

Legal Standard

Contents of Reports. Each report must disclose:

- the amount of cash-on-hand at the beginning and end of the reporting period;
- the total amount of receipts for the reporting period and for the calendar year;
- the total amount of disbursements for the reporting period and for the calendar year; and
- certain transactions that require itemization on Schedule A (Itemized Receipts) or Schedule B (Itemized Disbursements). 2 U.S.C. §434(b)(1), (2), (3), (4) and (5).

Facts and Analysis

A. Facts

During audit fieldwork, the Audit staff reconciled reported activity with bank records for 2009 and 2010. It determined that WSRP misstated the beginning cash balance and receipts for 2009 and receipts, disbursements and ending cash balance for 2010. The following charts outline the discrepancies in the cash balances, receipts and disbursements for each year. The succeeding paragraphs address the reasons for the misstatements.

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2009 Committee Activity			
	Reported	Bank Records	Discrepancy
Beginning Cash Balance @ January 1, 2009	\$124,951	\$155,272	\$30,321 Understated
Receipts	\$852,256	\$806,615	\$45,641 Overstated
Disbursements	\$970,577	\$952,783	\$17,794 Overstated
Ending Cash Balance @ December 31, 2009	\$6,630	\$9,104	\$2,474 Understated

WSRP understated the beginning cash-on-hand by \$30,321. WSRP did not explain the discrepancy, but it likely resulted from prior period discrepancies.

The overstatement of receipts resulted from the following factors.

- Reported transfers from Levin (\$32,499) and non-federal accounts (\$30,691) that were not supported by bank deposits or checks/debits by the transferring accounts \$ (63,190)
- Transfers from affiliated committee and non-federal account that were not reported 15,097
- Unexplained differences 2,452
- Net Overstatement of Receipts \$ (45,641)**

2010 Committee Activity			
	Reported	Bank Records	Discrepancy
Beginning Cash Balance @ January 1, 2010	\$6,630	\$9,104	\$2,474 Understated
Receipts	\$2,275,638	\$2,972,793	\$697,155 Understated
Disbursements	\$1,925,680	\$2,988,062	\$1,062,382 Understated
Ending Cash Balance @ December 31, 2010	\$356,588	-\$6,165	\$362,753 Overstated

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The understatement of receipts resulted from the following factors.

• Transfer from Levin account not reported	\$ 3,000
• Transfers from non-federal accounts not reported	109,078
• Transfers from political committees not reported	487,215
• Contributions from individuals not reported	93,337
• In-kind contributions not reported as receipts	10,976
• Reported transfer not supported by bank deposits	(11,675)
• Reported contribution not supported by bank deposit	(5,000)
• Unexplained differences	<u>10,224</u>
Net Understatement of Receipts	<u>\$697,155</u>

The understatement of disbursements resulted from the following factors.

• Payroll expenditures not reported	\$ 33,457
• Operating Expenditures not reported	1,023,213
• Transfers to political committees not reported	25,000
• Contributions to other committees not reported	10,000
• Reported disbursements not supported by checks or debits	(24,185)
• Unexplained differences	<u>(5,103)</u>
Net Understatement of Disbursements	<u>\$1,062,382</u>

The majority of the \$1,023,213 in operating expenditures not reported included costs associated with mail pieces provided by nine vendors, totaling \$882,966.

The \$362,753 overstatement of the ending cash-on-hand resulted from the misstatements described above.

B. Interim Audit Report & Audit Division Recommendation

Audit staff discussed this matter with WSRP representatives at the exit conference. WSRP representatives made no comment on this matter.

The Interim Audit Report recommended that WSRP amend its disclosure reports to correct the misstatements for both 2009 and 2010, and amend its most recently filed report to correct the cash-on-hand balance with an explanation that the change resulted from a prior period audit adjustment.

Further, the Audit staff recommended that WSRP reconcile the cash balance of its most recent report to identify any subsequent discrepancies that might affect the adjustment recommended by the Audit staff.

C. Committee Response to Interim Audit Report

In response to the Interim Audit Report, WSRP filed amended reports that materially corrected the misstatements.

In addition, a WSRP representative explained that Audit staff should have treated a \$43,921 disbursement from a federal account and a transfer of an identical amount from the non-federal account to the federal account-- both of which were included as unreported in the Interim Audit Report -- as reversing transactions. These transactions involved a payment mistakenly made from a federal account for non-federal activity and

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the subsequent reimbursement from the non-federal account. WSRP included both transactions in the amended reports.

D. Draft Final Audit Report

The Draft Final Audit Report noted that, in response to the Interim Audit Report, WSRP filed amended reports that materially corrected the misstatements as recommended by the Audit staff.

E. Committee Response to the Draft Final Audit Report

WSRP requested an audit hearing for the Commission to consider whether an unreported disbursement of \$43,921 made on August 5, 2010, and a corresponding unreported receipt in the same amount on August 12, 2010, should have been included in the misstatement total.

F. Audit Hearing

During the audit hearing, counsel for WSRP reiterated that the unreported disbursement of \$43,921 made on August 5, 2010, was a payment for non-federal activity that WSRP made in error from the federal account, and the unreported receipt in the same amount on August 12, 2010, was the subsequent reimbursement from the non-federal account. Both transactions occurred in the same reporting period. As a consequence, WSRP stated its belief that these offsetting transactions were obvious errors and that it should not have been required to include these transactions on its disclosure report.

Commission Conclusion

On September 13, 2012, the Commission considered the Audit Division Recommendation Memorandum in which the Audit staff (1) maintained that the reversing transactions questioned by WSRP during the audit hearing should be reported and included as part of the WSRP activity that was misstated for 2010, and (2) recommended that the Commission find WSRP misstated its financial activity in 2009 and 2010.

The Commission approved the Audit staff's recommendation.

Finding 2. Misstatement of Financial Activity - Levin Fund

Summary

A comparison of WSRP's reported Levin activity with bank records revealed a misstatement of its beginning cash-on-hand and disbursements for 2009 and a misstatement of disbursements and ending cash-on-hand for 2010. For 2009, WSRP overstated beginning cash-on-hand by \$32,499 and overstated disbursements by \$32,499. In 2010, WSRP understated disbursements by \$15,000 and overstated ending cash-on-hand by \$12,500. In response to the Interim Audit Report, WSRP filed amended reports that corrected the misstatements.

The Commission approved a finding that WSRP misstated Levin financial activity for 2009 and 2010.

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Legal Standard

Contents of Levin Reports. Each report must disclose:

- the amount of cash-on-hand for Levin funds at the beginning and end of the reporting period;
- the total amount of Levin fund receipts and disbursements (including allocation transfers) for the reporting period and for the calendar year; and
- certain transactions that require itemization on Schedule L-A (Itemized Receipts of Levin Funds) or Schedule L-B (Itemized Disbursements of Levin Funds). 11 CFR §300.36 (b)(2)(B).

Facts and Analysis

A. Facts

During audit fieldwork, the Audit staff reconciled reported Levin activity with bank records for 2009 and 2010. It determined that WSRP misstated beginning cash-on-hand and disbursements for 2009 and disbursements and ending cash-on-hand for 2010. The following charts outline the discrepancies for the cash balances, receipts, and disbursements for each year. The succeeding paragraphs address the reasons for the misstatements.

2009 Committee Activity			
	Reported	Bank Records	Discrepancy
Beginning Cash Balance @ January 1, 2009	\$49,500	\$17,001	\$32,499 Overstated
Receipts	\$0	\$0	\$0
Disbursements	\$49,499	\$17,000	\$32,499 Overstated
Ending Cash Balance @ December 31, 2009	\$1	\$1	\$0

WSRP overstated the beginning cash balance by \$32,499. WSRP did not explain the discrepancy, but it likely resulted from prior period discrepancies.

The overstatement of disbursements resulted when WSRP erroneously reported transfers of \$32,499 to the federal account. WSRP also identified these transactions as an adjustment to the federal bank reconciliation. (See Finding 1, page 5.) These transfers appear to have been reported to correct the overstatement of cash-on-hand as of January 1, 2009.

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2010 Committee Activity			
	Reported	Bank Records	Discrepancy
Beginning Cash Balance @ January 1, 2010	\$1	\$1	\$0
Receipts	\$12,500	\$15,000	\$2,500 Understated
Disbursements	\$0	\$15,000	\$15,000 Understated
Ending Cash Balance @ December 31, 2010	\$12,501	\$1	\$12,500 Overstated

WSRP did not report a \$15,000 transfer it made to the federal account. The \$12,500 overstatement of the ending cash balance resulted from the misstated receipts and disbursements noted above.

B. Interim Audit Report & Audit Division Recommendation

Audit staff discussed this matter with WSRP representatives at the exit conference. WSRP representatives made no comment on this matter.

The Interim Audit Report recommended that WSRP amend its disclosure reports to correct the misstatements for both 2009 and 2010.³

C. Committee Response to Interim Audit Report

In response to the Interim Audit Report, WSRP filed amended reports that corrected the misstatements.

D. Draft Final Audit Report

The Draft Final Audit Report noted that, in response to the Interim Audit Report, WSRP filed amended reports that corrected the misstatements as recommended by the Audit staff.

E. Committee Response to the Draft Final Audit Report

WSRP made no comment on this finding.

Commission Conclusion

On September 13, 2012, the Commission considered the Audit Division Recommendation Memorandum in which the Audit staff recommended that the Commission find that WSRP misstated its Levin fund financial activity for calendar years 2009 and 2010.

The Commission approved the Audit staff's recommendation.

³ WSRP has not reported any Levin activity for calendar year 2011.

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Finding 3. Reporting of Debts and Obligations

Summary

During audit fieldwork, the Audit staff identified debts to five vendors that WSRP failed to report in calendar years 2009 and 2010. WSRP did not report debts totaling \$361,838. In response to the Interim Audit Report, WSRP amended its reports to disclose those debts.

The Commission approved a finding that WSRP failed to report debts for 2009 and 2010.

Legal Standard

A. Continuous Reporting Required. A political committee must disclose the amount and nature of outstanding debts and obligations until those debts are extinguished. 2 U.S.C. §434(b)(8) and 11 CFR §§104.3(d) and 104.11(a).

B. Separate Schedules. A political committee must file separate schedules for debts owed by and to the committee with a statement explaining the circumstances and conditions under which it incurred or extinguished each debt and obligation. 11 CFR §104.11(a).

C. Itemizing Debts and Obligations.

- Once it has been outstanding 60 days from the date incurred, a debt of \$500 or less must be reported on the next regularly scheduled report.
- A debt exceeding \$500 must be disclosed in the report that covers the date on which the debt was incurred. 11 CFR §104.11(b).

Facts and Analysis

A. Facts

The Audit staff reviewed vendor invoices and computer files containing WSRP disbursements made in 2009 and 2010. Although WSRP paid the majority of invoices in a timely manner, it carried outstanding balances with five vendors that were not disclosed as debts on Schedule D (Debts and Obligations). The debts totaled \$361,838.⁴

B. Interim Audit Report & Audit Division Recommendation

The Audit staff informed WSRP representatives of this matter at the exit conference and provided schedules detailing the undisclosed debts for each reporting period. WSRP representatives made no comment on this matter.

The Interim Audit Report recommended that WSRP amend its reports to disclose the debts and obligations addressed above.

⁴ Each debt in this amount was counted once. In order for WSRP to correctly file amended reports, Audit staff provided a schedule that included the amount of each debt required to be reported for each reporting period.

C. Committee Response to Interim Audit Report

In response to the Interim Audit Report, WSRP filed amended reports disclosing the debts and obligations.

D. Draft Final Audit Report

The Draft Final Audit Report noted that, in response to the Interim Audit Report, WSRP filed amended reports disclosing the debts and obligations.

E. Committee Response to the Draft Final Audit Report

WSRP made no comment on this finding.

Commission Conclusion

On September 13, 2012, the Commission considered the Audit Division Recommendation Memorandum in which the Audit staff recommended that the Commission find that WSRP failed to report debts to vendors for calendar years 2009 and 2010.

The Commission approved the Audit staff's recommendation.

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